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THE BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA

OPERATION BOOT STRAP— A SECOND LOOK

Many towns in the Third District are helping themselves to a brighter future. A number are doing this through industrial development corporations which raise money and help businessmen acquire new plants. Towns in the anthracite area are especially active in enlarging and diversifying their industrial structure. This issue brings up to date a study made three years ago and presents: the reasons for industrial development activity, details about what towns are doing, some pros and cons on the question of giving subsidies to attract industry, and some conclusions about the success of these programs.

CURRENT TRENDS

The spotlight is on department store sales. They were not so good in November— a late Thanksgiving was the reason. But consumer response in early December was suggestive of a good Christmas buying season for 1952.

Additional copies of this issue are available upon request to the Department of Research, Federal Reserve Bank of Philadelphia, Philadelphia 1, Pa.

OPERATION BOOT STRAP— A SECOND LOOK

Three years ago we made a survey of how Third District communities were using their own capital to attract and build industry. We are now taking another tug on the boot strap by bringing the study up to date.

"God helps them who help themselves" is a proverb Third District communities are putting to practical use. Many towns suffering from unemployment and instability have taken their future into their own hands. A number have created "industrial development corporations" to raise money for use in helping businessmen acquire new plants. No two communities have exactly the same problems; no two communities are doing exactly the same things.

It is important for communities to solve their own problems. But experience has shown that it is not enough to go out and get an industry. The community must undertake an intensive and critical self-analysis, must know what it needs, and how to get it. Wherever this is done, community development programs can be a vital force in promoting both economic stability and a high standard of living.

Why Industrial Development Activity?

Behind all of this activity is economic change of one kind or another. If the change is the kind that hurts a community and if the community does not have a diversified industrial structure that can absorb the shock, something must be done.

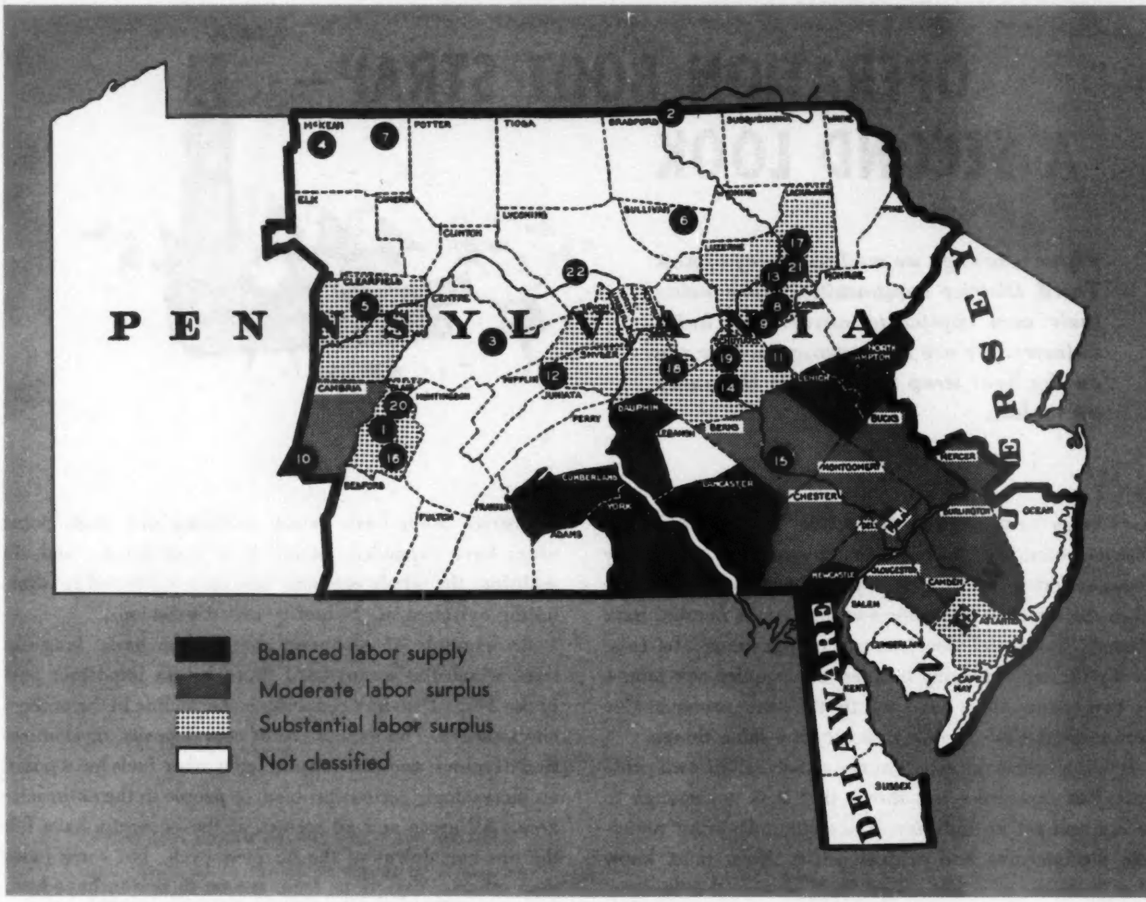
One of the reasons our American economy turns out more goods and services than any other is that it offers maximum incentives to discover new and better things. This has meant a high and rising standard of living, but it has also meant change and instability. New and growing industries often have meant declining old ones. Some areas have expanded, others have contracted; and, in addition, the whole economy has been subjected to alternating extremes of prosperity and depression.

An example of economic change, the basic long-run type, which has meant hard times for an important part of the Third District's economy is the decline in the anthracite industry. The exhaustion of coal deposits, mechanization of mines, and competition from other fuels have posed an increasingly serious problem to people in the anthracite area. All areas and all sectors of the economy have felt the ups and downs of the business cycle, but some more than others. Variations from season to season have been another type of economic change which has presented problems to some communities.

These are the basic reasons for industrial development activities. The immediate reason, for many communities, is unemployment. The accompanying map shows the various industrial areas in the Third District grouped according to the degree of labor surplus, as of September 1952. Seven are areas of "substantial labor surplus," as determined by the United States Department of Labor; four are areas of "moderate labor surplus"; and five are areas of "balanced labor supply." Most of the active industrial development corporations are located in areas of substantial labor surplus.

Some communities have been more vulnerable to economic change than others because their industrial structure

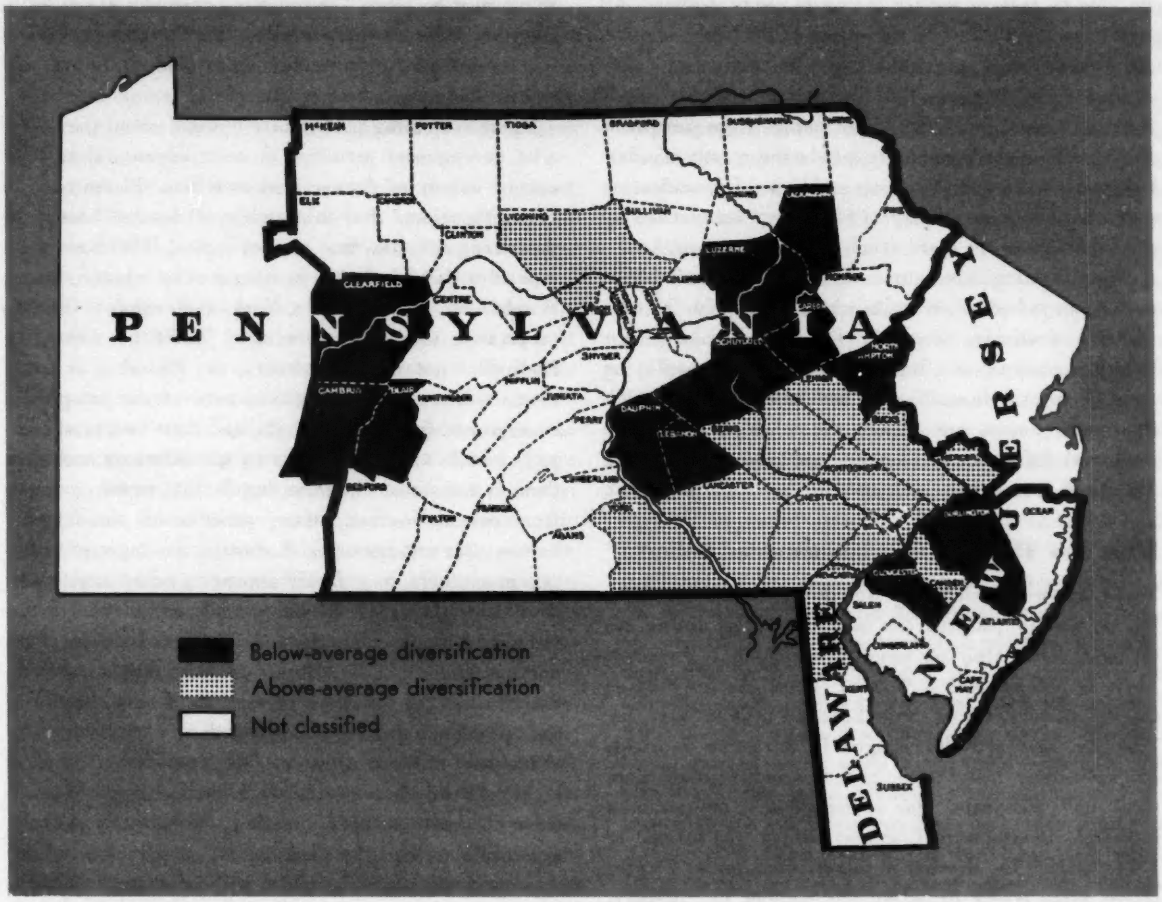
INDUSTRIAL DEVELOPMENT CORPORATIONS GROW WHERE UNEMPLOYMENT IS A PROBLEM...



TOWNS WITH CORPORATIONS

1. Altoona ...... Altoona Enterprises, Inc.
2. Athens .... Valley Economic Development Association (Sayre, Waverly)
3. Bellefonte .... Bellefonte Industrial Development Corporation
4. Bradford ..... Bradford Industrial Development Corporation (and surrounding area)
5. Clearfield .... Clearfield Foundation
6. Dushore .... Dushore Industries, Inc.; Sullivan County Industrial Corporation
7. Eldred .... Eldred Real Estate Corporation
8. Freeland ..... Freeland Industrial Development Corporation
9. Hazleton ..... Hazleton Industrial Development Corporation
10. Johnstown .... Johnstown Industrial Development Corporation
11. Lansford ..... Panther Valley Industrial Association, Inc. (Tamaqua, Coaldale, Summit Hill, Nesquehoning)
12. McClure ...... McClure Industries, Inc.
13. Nanticoke ..... Nanticoke Industrial Development Fund, Inc.
14. Pottsville ..... Greater Pottsville Industrial Development Corp.
15. Reading ...... Greater Reading Development Fund, Inc.
16. Roaring Spring .. Morrison Cove Industrial Development Corp. (Williamsburg, Martinsburg, and surrounding areas)
17. Scranton ... Scranton-Lackawanna Industrial Building Company; Scranton Industrial Development Company; Scranton Plan Corporation; Lackawanna Industrial Fund Enterprises
18. Shamokin .... Shamokin Area Industrial Corporation
19. Shenandoah .. Shenandoah Chamber of Progress
20. Tyrone .... Tyrone Improvement Corporation
21. Wilkes-Barre .. Wyoming Valley Industrial Development Fund
22. Williamsport .. Industrial Properties Corporation

AND ATTEMPT TO DIVERSIFY THE LOCAL ECONOMY



has not been diversified. Specialization—the opposite of diversification—has been a basic factor in our rapid growth, but it has also meant greater vulnerability to change. Communities which are most active in promoting industrial development are those which need to diversify their industrial structure.

Diversification may mean many different things, depending pretty much on what we are trying to accomplish by it. We sometimes think of diversification as a way of becoming self-sufficient. With minor exceptions, the United States has a diversified economy in this sense. So, if the industrial distribution in the United States is used for comparison, we can get some indication of how diversified, relatively, the industrial counties in the Third District are.* As the map indicates, by this measure the areas in the Third District with above-average diversification surround Philadelphia. Areas with below-average diversification are the anthracite and bituminous coal mining regions; Blair, Lebanon, Dauphin, and Northampton counties in Pennsylvania; and Gloucester and Burlington counties in New Jersey.

We often think of diversification also as a way of insulating an area against adverse economic change—simply

*A percentage distribution of employment among the various major industry groups was calculated for the United States and for each industrial county in the Third District. The percentage for each industry group for the United States was subtracted from the percentage for each group for a given county. The resulting deviations were totaled disregarding signs, producing a rough indication of the relative diversification of the county's industrial structure.

not putting "all of our eggs in one basket." The object, of course, is to avoid total collapse of the economy and to be able to recover sooner if one industry declines. All industries are affected by the swings of the business cycle, so diversification cannot insulate an area completely against such changes. But because the durable goods industries usually feel the widest swings from prosperity to depression, the community producing mostly nondurable goods will tend to be a more stable one. Diversification may even minimize the impact of seasonal fluctuations by spreading the work more evenly during the year.

Diversification is sometimes used to mean other things, such as an industrial structure which fits in with the type of labor available. Towns in the anthracite area, for example, generally are looking for industries employing men. Whatever diversification may mean, this is what most communities are striving for when they promote industrial development. They are apt to say they want a "balanced economy."

What Are Third District Communities Doing?

While no two communities are doing exactly the same things, certain patterns are apparent. Most towns are trying to solve their problems by bringing in industry. There is nothing new in this, of course. As far back as the last century, towns throughout the Middle West, for example, were actively engaged in attracting railroads and industries. Many towns have had industrial development funds for years. One of the oldest is the Scranton Industrial Development Company, which was formed in 1914. During the depression, other communities became active, often trying to outbid one another for industry. World War II brought many changes but seemed to intensify rather than alleviate the problem of diversification. Toward the end of the war and during the early post-war years, cities were planning how to hold the industries which they had acquired during the war, or how to attract new industries to help ease the transition to peace-time activities. Industrial development activity spurted. As business expansion slowed down, particularly with the 1949 slump, activity on the part of these communities also slackened. Then came Korea, with a need for more expansion of productive capacity, and industrial development activities got another "shot in the arm."

A survey made by this Bank and information provided by local chambers of commerce throughout the district show that the aggressiveness with which a community pursues industrial development depends on how great the need is; things are being done where people feel something *must* be done. The following examples are given to illustrate different approaches to different problems. They are not intended to cover the entire field, but serve only as case histories.

There is nothing particularly unusual about the industrial development activities of most communities. They consist largely of promotional activities. Please bear in mind, therefore, that this article is devoted mostly to describing activities that are not typical. The more usual type of activity is found in communities where industry is relatively diversified. In York, for example, there is no pressing need for new industry. While the community itself does not finance industry, the Chamber of Commerce will act as a middle-man between the prospective concern and financing interests, and there is a local company which will build plants to specifications and lease them to industries. The financing for this, however, comes from private sources. Many other towns undoubtedly have similar arrangements. Industrial development activities in southern New Jersey appear to be of these types. And although plans were being made in Delaware a few years ago for community financing plans, these have not materialized. Most of the unusual type of activity described in the following paragraphs is concentrated in the "problem areas" of Pennsylvania.

Industrial Development Corporations—The most highly developed form appears in the industrial development corporations or foundations. In a study of such organizations, the Tulsa Chamber of Commerce has defined them as corporations "provided with funds by public subscription or donation, created for the purpose of encouraging the industrial development of the community by providing services of a financial nature to new or established industry." In its survey conducted in early 1949, the Tulsa Chamber obtained information about 72 active foundations in cities of all sizes all over the country. There are undoubtedly more for which no information is available.

In the Third Federal Reserve District at least 22 communities or groups of communities have a corporation to provide financial aid to industries. The accompanying list has been derived from several sources, including the Pennsylvania State Chamber of Commerce. It may not be complete, but it is the most comprehensive we have been able to obtain.

Generally speaking, towns with industrial development corporations are those with substantial unemployment. But this is not always the case. Reading has had, since 1947, a fund which it calls the Greater Reading Development Fund which was obtained by issuing 30-year 2 per cent debentures. The Fund has just completed a building which is being leased to a new industry on a long-term amortized basis.

In past years, Williamsport has offered grants to attract new industries. Recently, its aid to industry has been largely "out-of-pocket" money, such as putting in a sewer, water supply, occasionally giving some land, and similar kinds of help. Williamsport feels in position, however, to build a building for a suitable prospect and lease it over a period of years. It has an Industrial Properties Corporation which could handle such an operation.

In contrast with Reading and Williamsport are several communities where little industry is as yet located. Three towns, Athens and Sayre, Pennsylvania, and Waverly, New York, formed four years ago the Valley Economic Development Association, which operates somewhat on the same basis as that of Williamsport. The Association merely acts as a go-between in financing buildings, but also may foot the bills for roads, sewers, and other miscellaneous costs of establishing an industry.

Another example of the efforts of a relatively non-industrialized area to get industry is provided by Dushore, Pennsylvania. The Sullivan County Industrial Corporation and Dushore Industries, Inc., have each constructed one factory and leased the plant to a company employing about 125 people. In the one case, money was raised by 2 per cent debenture bonds; in the other, by first mortgage bonds. Both are being paid off out of the rents paid by the companies.

Eldred, out in the northwestern part of the district, raised money through debentures and undertook construction in order to retain an industry that was contemplating leaving the community.

Although the town of McClure is also located in a relatively non-industrialized area, the approach to the problem there has been quite different. McClure Industries, Inc., was established recently and money was raised by the sale of stock. With these funds, plus borrowed money, the Corporation is building a factory and will operate the business.

In contrast to these areas which either are well-diversified industrially or have yet to develop much in the way of industry, Johnstown and Altoona are essentially one-industry towns. In Johnstown, steel mills employ a large proportion of the labor force. Bituminous coal accounts for another big share of the county's employed. While both industries are important to our economy, they have been subject, in the past, to sharp ups and downs during the business cycle and, in recent years, to uncertain labor conditions. At one time, Johnstown, like many other communities, made payments of one sort or another to attract industry. Since 1945, it has carried on its industrial development activities through the Johnstown Industrial Development Corporation. Although a campaign for funds was not as successful as originally hoped, the community is still working to bring new industries into the area.

Altoona is even more of a one-industry town than Johnstown. Here the railroad repair shops employ a large proportion of the community's labor force. Because the community has been vulnerable to sudden economic changes, it formed, in 1946, Altoona Enterprises, Inc. This corporation issued debenture bonds and used the funds to meet 15 per cent of the cost of plants. The industry itself paid 10 per cent of the cost, and the remaining 75 per cent was financed by a first mortgage with an insurance company. Two plants were built and financed on this basis. But because of the lapse of time needed to sell securities each time an industrial prospect appeared, Altoona formulated a plan for getting ready cash which could be available as negotiations were carried on. This plan was known as the Altoona Industrial Payroll Insurance Plan, by which business firms and others make outright contributions into a common fund. Altogether, $600,000 has been raised, part of which was presented to one company and part of which is now being used to build another plant.

Other communities in the same general area have also taken action along somewhat similar lines. In Tyrone, the Tyrone Improvement Corporation sold stock and borrowed money from the local bank on a first mortgage in order to build a plant. A company is now occupying the plant on a 10-year lease with an option to buy at any time. The mortgage is being paid off and the stockholders will soon decide whether to start retiring the stock or to accumulate funds for further use in bringing industry into the community.

In Clearfield, an active Foundation has assisted the development of a number of industrial enterprises over a period of some years. It is currently using funds from

the issuance of first mortgage participation certificates to develop two new industrial properties and is assisting another company make an addition and improvements to buildings.

The Morrison Cove Industrial Development Corporation was organized recently by a number of small towns in the same general area. Over $100,000 was raised by the issuance of bonds, and the money has been used to build a plant now being leased to a company which will acquire the building in twelve years.

While many communities in many parts of the district are promoting industrial development, towns in the anthracite area have been the most active. Scranton is the largest city in the area. It has taken perhaps the most vigorous and successful steps of any anthracite community to compensate for the decline in the anthracite industry and to diversify its industrial structure. Its experience in industrial development goes back for many years. The Scranton Industrial Development Company has been in existence since 1914, giving financial assistance to established industries. This organization appears to be unique in the Third Federal Reserve District both in its lending activities—it makes non-bankable character loans—and in the fact that it has declared dividends.

The Scranton-Lackawanna Industrial Building Company is more typical of the kind of organization other communities in the anthracite area have set up. SLIBCO was formed in 1946 to finance the construction of buildings for new and established industries. Funds were obtained by issuing 15-year, 4 per cent debentures and the remaining cost of the plants was met by first mortgages held by a Scranton bank pool. The buildings were leased to industries on a long-term basis, with an option to purchase. Mortgages and debentures are being paid off from annual rentals. SLIBCO thus far has built eleven plants and has enabled industries to buy two of these.

In 1946, Scranton also formed the Scranton Plan Corporation solely for the purpose of buying from the War Assets Administration, land, building, and facilities occupied during the war by the Murray Corporation of America. This was financed by the sale of first mortgage bonds to citizens of the community.

Finally, in 1950, the Lackawanna Industrial Fund Enterprises (LIFE) organization was formed. LIFE differed from the other plans in two respects: it included all of Lackawanna County and not just Scranton; it raised funds by outright contribution from residents rather than the issuance of mortgage or debenture bonds. The drive for funds raised about $1,300,000 which has been used to construct six plants employing over 5,000 people.

Wilkes-Barre established the Wyoming Valley Industrial Development Fund in 1939 to secure new industries, promote the growth of existing local concerns, and in general to help develop more jobs and larger payrolls. In 1949 and 1950, $262,000 was raised by outright gifts. The Fund purchased a site and constructed a building which was then sold to a company. The proceeds from the sale were used to erect a second building which is now being leased to a company. This year, Wilkes-Barre raised over $700,000—this time mostly from the larger business establishments. A good bit of this money was used to acquire a tract of land on which one plant is now being built and another will later be constructed.

Other communities have also been quite active within the past year. Pottsville recently raised about $500,000 through contributions by businessmen and plans to construct all-purpose buildings in shell form (walls, roof, floor, heating, and minimum plumbing). These buildings will be offered to new industries on the basis that they can be purchased in unfinished form, or leased, in which event the community will complete the building in accordance with the specific requirements of the company concerned.

Nanticoke raised money this year through certificates which entitle holders to their pro rata share of any funds paid back by the company which will occupy a plant now being completed. The company is buying the plant on a long-term sales contract but the payments do not include interest.

Shenandoah, having raised $370,000 five years ago and constructed a plant, is now planning a second drive. Any plant to be built will be leased to a company on a long-term lease but the rental will be based on a selling price set in accordance with the number of people the company will employ.

Some other communities raised money several years ago, have built new plants, and are using the remaining funds. The Panther Valley Industrial Association raised over $500,000 from donations and used most of it to pay 44 per cent of the cost of constructing a plant which then became the property of the Bundy Tubing Company. About $85,000 is still left and the Association is committed to donate this to another company, making payments in instalments as the building goes up.

Three years ago, Hazleton was the envy of the entire anthracite area for the concerted efforts of its citizens in contributing toward a new plant for the Electric Auto-Lite Company. Contributions of over $600,000 were obtained from businessmen, employees, and others in less than three weeks. A large part of this was used to build the plant for Auto-Lite but some is now being repaid and is becoming available for further use. Some additional money has been raised and this, coupled with available outside financing, is now sufficient for new projects.

Similarly, Freeland raised $135,000 by public subscription during 1949 and 1950, and constructed a building where 125 men are now employed. No funds are now available, but rental payments will return the cost of the building and support future plans.

Because no new industry was obtained, the Shamokin Area Industrial Corporation has returned funds collected several years ago. About $300,000 has been pledged by the donors, however, and is available if industry can be secured. The Corporation is active, owns an industrial site, and has options on two others.

What About Subsidies?

Depending on how urgently they need industry, communities in the Third District have varying attitudes toward giving financial or other aid without a normal financial repayment. Where industry is well diversified, opinion is against concessions. In the first place, there is no necessity for it and in the second place, industries already in the community dislike such preferential treatment. Some communities used to give subsidies of one sort or another—outright cash payments, paying the industry's moving cost, and the like—but are now opposed to the practice. This may be because they are better off industrially than they once were and their own manufacturers now object. Even in areas where industry is relatively less diversified, opinions are likely to differ. Communities which would not give cash payments or contribute part of the cost of a plant will arrange for lower assessments for property taxation. Others may be opposed to concessions in principle but when confronted with an imminent problem of attracting industry may find the competition so strong that they become willing to make a financial contribution.

A manual published by the Pennsylvania State Chamber of Commerce in cooperation with the Pennsylvania Department of Commerce gives this advice: "Certain towns and communities, because of certain deficiencies such as geographic location, lack of industrial experience, inadequate industrial real estate, bad labor history, etc., are given little or no consideration by industries seeking new locations because such conditions tend to raise locating and operating costs to a prohibitive high level. Therefore, when dealing with financially sound industries, under such conditions, certain towns and communities can justify additional and unusual requirements of any given new enterprise, providing that such necessary community investment is considered an investment in the economic future of the community or area. Although it is admitted that very occasionally there are justifiable cases of this last-named type, communities should offer gifts only as a last resort. When it is done, most careful consideration should be given (a) to the integrity of the firm, and (b) to the ability of the community to remove the local obstacles to profitable local operation."

Whether or not subsidies are justified must seem like an academic question to communities facing the bleak future of declining incomes and population. The following paragraphs give some of the pros and cons as a basis for judging whether extraordinary aid should be made available in particular cases.

A *laissez-faire* economy—a "hands-off" economy—is supposed to result automatically in the best location of industry. Left to its own devices, so the theory goes, industry will naturally seek the best location from the point of view of lowest costs and maximum profits. It will weigh all of the important factors—things like the location of raw materials, availability of labor, sites, industrial fuel, transportation and distribution facilities, power, water, nearness and extent of the market, the nature of living conditions—and come up with the most economical location for its operations. Because it is most economical for the industry, it will be most economical for all concerned. A "problem area," therefore should not be bolstered by subsidies or any other means. The very fact that it is a problem area indicates that it is uneconomic.

Unfortunately, the answer is not so simple as that. Industries sometimes make mistakes in picking their locations. And since competition is not perfect, inefficient firms often stay in operation. The process of trial and error means a rapid turnover in industry—new concerns being started, others folding up—and thus a tendency toward under-utilization of resources. Finally, labor does not move

as readily as the text-books often assume. People may not know of opportunities elsewhere, they may not have the skills necessary to change jobs, or they may simply prefer to stick with the home town even though it is going down hill.

Many things are being done to correct these defects in the economic machine. Industries and communities alike are analyzing what they have and what they need, and are making their findings available. Wider knowledge of employment opportunities also makes it easier for labor to move from place to place, and better education makes people better able to take advantage of these opportunities. The community can help along these lines to make the economy work better.

When a community gives industry a concession, however, it does more than this. It abandons a "hands-off" policy. In the short run, it may find itself competing with nearby communities for bigger and better concessions. In the longer run, it may contribute to the uneconomic location of industry. A subsidy may be justified on a temporary basis if it puts an area on a competitive basis. This is the same argument some people give for a tariff to protect "infant industries." Whether or not an area has what it takes to be competitive, however, is a question that needs intensive analysis. If it is found that an area can compete, a gift or concession might be considered an investment in the community's economic future.

Even if an area cannot be competitive, there are arguments for giving subsidies to industry. A subsidy involves some cost. Often it is a tangible cost, such as a cash contribution by the citizens. Sometimes it is less tanglible, but there is always a cost. The question is whether the cost of the subsidy is less than the cost of allowing an area to collapse. In a completely free and competitive economy, for example, people would be forced to move out of a depressed area. But this in itself involves some cost, both the costs of moving and setting up new facilities somewhere else, and the social costs of breaking up the community. There are some costs an accountant cannot measure. Those who move away are usually the most aggressive, leaving the community weaker than it was before. And when people leave a community it has a multiplying effect. When employed miners, for example, move out this means a smaller demand for goods sold in local stores, which in turn forces some retailers to close down and move out too—and so the process continues. If the area collapses, there may be a tremendous waste of capital already invested in the area. There is even a cost if nothing is done; it shows up in lower per capita incomes.

Since communities have decided that the answer is to bring industry in, with or without subsidies, they should consider bringing in industries which will give them a diversified economy. Greater diversification *may* entail some loss in efficiency but should result in more stability. It may be that a community must strike a mean between two desirable objectives: on the one hand, growth which comes from efficiency and specialization and, on the other hand, stability which comes from diversification. It is quite likely, however, that there is a good deal of room for greater diversification in many cases without impairing efficiency.

People who are engaged in industrial development activities stress again and again the need for community self-analysis. If a community puts itself above the market place in deciding the location of industry, it should make its decisions according to rational economic principles. Industry plans its location carefully; if communities do not plan their development activities equally carefully, they may get the worst of the bargain.

Results and Prospects

How successful have all these efforts been? This is a question which cannot be answered in general terms; industrial development activities are meaningful only in relation to the needs and problems of the individual community. From the over-all point of view, in fact, the importance of these activities is not great. All together, the funds raised by the communities in this district with industrial development corporations total less than $10 million.

But it is the individual situation that is important, and there results vary widely. The degree of success depends on a number of things, many of them intangible. Some communities have seen their problems more clearly than others and have been able to translate ideas into action more effectively. It is quite usual to hear men involved in industrial development complain that the community does not seem to be aware of the urgency of the problem, or that it lacks enthusiasm.

Even with all the enthusiasm in the world, some programs have been less than successful. Frequently, this can be traced to an unhappy experience with a company brought into the area. And this has happened often enough to rank as the number-one risk inherent in these

activities. Once this happens, the community is apt to turn sour on the program and it becomes difficult, if not impossible, to raise more money. The reasons for disappointments may be many but the injured party is almost sure to be the community.

The degree of success depends to a very great extent on timing. Industrial development activity fluctuates with the business cycle. When business is expanding, it is easier to find prospects and easier to raise funds from the community. When business is contracting, it is hard to find prospects, and people in the community—particularly if it is a depressed or not very well diversified area—have less money to contribute. The problem faced by men working in industrial development is to convince the community in good times that prosperity cannot last forever and to act when the time is ripe.

From a broader economic point of view, it would be desirable for industrial development activities to move *against* the business cycle—to increase in depressions and decrease during booms. This is probably too much to hope for. Besides, it is likely that activities such as we have described here have little effect on the business cycle. In the first place, they are not large enough. In the second place, they probably have no effect on the decisions corporations make as to whether or not to expand. These decisions are made on other grounds, such as the outlook for future sales.

The existence of an industrial development plan may, however, attract an industry to a community once the corporation has decided to expand. In other words, these activities have more effect on the location of new plants than on the total volume of new plants. This means that a community can be most successful, at less cost, in times of rapid business expansion, and least successful, at more cost, when business is not expanding so rapidly. For this reason, some communities which have begun their activities relatively late in the game have not been so successful.

If we follow this reasoning further, we must conclude that the outlook for these activities is becoming less promising. The tremendous expansion of plant capacity which took place immediately after World War II and again after Korea cannot continue. Business will still spend large amounts for new plant, it is true, so there will be no tremendous decline in industrial development activities. But the environment is not likely to be as good as it has been. If we have no general business recession of serious magnitude, however, the businesses which communities have brought in will have further opportunity to extend their roots and become a permanent, solid part of the community.

CURRENT TRENDS

Traditionally, the observance of Thanksgiving is the beginning of the "open season" for Christmas shoppers in the retail stores. This year was no exception, although the holiday came one week later than in 1951. In talking with representative merchants in various parts of the District it appears that the net effect of the late Thanksgiving will be to compress the active Christmas buying season into four weeks instead of the five allowed last year. Total dollar sales for the period however, are expected to be at least equal to those of last year, and there are optimistic retailers who anticipate gains ranging up to 5 per cent. There is almost universal agreement that November's sales volume was very disappointing. Moreover, October's high level of retail sales makes the November comparisons still more unflattering. Promotional events of one sort or another failed to stimulate much buying interest, and the easier credit terms on which costly merchandise was available were taken advantage of to only a limited extent. But it must be remembered that last month's business undoubtedly included a very much smaller proportion of gift merchandise than was the case in 1951, when the "season" opened on November 22, instead of November 27.

Consumer response in the four trading days immediately following Thanksgiving seems to have dispelled much of the gloom engendered by the sales record for the month of November as a whole. Fewer people were just looking, many more were buying. This appears to have been especially true in cities other than Philadelphia. Department stores in Wilmington, Scranton, Lancaster and Easton were most emphatic on this point, so was the owner of a men's-wear establishment in York. A department store in Trenton reportedly experienced the largest dollar volume in its history on Friday, November 28. Christmas buying appeared to be developing more slowly at general merchandise stores in Reading and Harrisburg. In the latter city and in Pottsville, establishments handling major appliances, homefurnishings, and furniture were experiencing sales increases not quite up to expectations.

The large Philadelphia department stores professed to see no drastic change in consumer attitudes since Thanksgiving. They experienced one very disappointing day, when store attendance fell off sharply because of a snow storm and forecasts of more snow to come. Improvement to date generally was regarded as little more than might have been expected, considering this year's relatively short active buying season. Store executives for the most part were optimistic, but in some cases their expressed views were tempered with a bit of caution. They were pretty much in agreement that November and December sales combined would at least equal those of a year earlier, with a fair possibility that final returns would show a small plus over the same months of 1951.

Queries as to the type of merchandise in greatest demand at the District's retail stores indicated no pronounced sales trends for either luxury or utility merchandise. There was little evidence anywhere of an acute price consciousness on the part of buyers. However, there were exceptions in areas where last summer's steel strike affected a sizable proportion of the population. In these localities consumer budgets still are pinched somewhat; luxury items are in smaller demand and shopping for a price is discernible. Strictly gift purchases in the department stores generally have not yet reached volume levels, but the very latest trends are encouraging. The situation with respect to major household appliances varies widely from an active demand for even the highest cost units to virtually no interest whatever. Clothing demand in the past several weeks has been highly erratic, fluctuating with the weather changes. In this line, sportswear for both men and women appears to be holding the spotlight.

To most retailers, post-Christmas sales are the very least of their worries and the month of January seems far away. Their forecasts for that period may be more "guesstimates" than estimates. Some merchants have pinned their hopes to store-wide clearances, and there are, to be sure, January's time-honored white goods sales. In most cases, however, they base their opinions (and hopes) on a continuance of the full employment we are enjoying currently. With a few exceptions, storekeepers large and small, look forward to a January business volume equal to that of 1952, but still far below the record of 1951, when there was that resurgence of the 1950 mid-summer buying wave set off by the outbreak of war in Korea.

SUMMARY	Third Federal Reserve District — Per cent change — October 1952 from mo. ago	Third Federal Reserve District — October 1952 from year ago	Third Federal Reserve District — 10 mos. 1952 from year ago	United States — Per cent change — October 1952 from mo. ago	United States — October 1952 from year ago	United States — 10 mos. 1952 from year ago
OUTPUT						
Manufacturing production	+ 2*	+ 2*	−6*	+ 1	+ 5	− 2
Construction contracts‡	−14	+28	+4	− 5	+49	+ 4
Coal mining	+ 2	−13	−7	−30	−33	−11
EMPLOYMENT AND INCOME						
Factory employment	+ 1*	+ 1*	−6*	0	+ 2	− 2
Factory wage income	+ 2*	+ 8*	−3*	.....	.....	.....
TRADE**						
Department store sales	+ 9	+ 5	0	+ 8	+ 6	0
Department store stocks	+ 1	− 3	.....	0	− 1	.....
BANKING (All member banks)						
Deposits	0	+ 3	+4	+ 1	+ 5	+ 6
Loans	+ 2	+12	+8	+ 2	+10	+ 8
Investments	0	+ 1	+1	+ 1	+ 4	+ 5
U.S. Govt. securities	− 1	− 1	−1	+ 2	+ 3	+ 4
Other	+ 2	+ 7	+7	− 1	+10	+10
PRICES						
Wholesale	.....	.....	.....	− 1	− 2	− 3
Consumers	0†	+ 2†	+3†	0	+ 2	+ 3
OTHER						
Check payments	+17	+11	+3	+11	+11	+ 7
Output of electricity	+ 4	+ 7	+3	.....	.....	.....

*Pennsylvania
**Adjusted for seasonal variation. †Philadelphia.
‡Changes computed from 3-month moving averages.

LOCAL CONDITIONS	Factory* Employment — Per cent change Oct. 1952 from mo. ago	Factory* Employment — year ago	Factory* Payrolls — Per cent change Oct. 1952 from mo. ago	Factory* Payrolls — year ago	Department Store Sales — Per cent change Oct. 1952 from mo. ago	Department Store Sales — year ago	Department Store Stocks — Per cent change Oct. 1952 from mo. ago	Department Store Stocks — year ago	Check Payments — Per cent change Oct. 1952 from mo. ago	Check Payments — year ago
Allentown	+1	+1	−2	+ 9	.....	.....	.....	.....	+10	+ 5
Harrisburg	0	+9	+1	+22	.....	.....	.....	.....	+ 6	+12
Lancaster	+2	+2	+5	+10	+ 9	+13	+14	−2	+ 9	− 1
Philadelphia	+1	+6	+1	+15	+ 9	+ 2	+12	−4	+23	+13
Reading	+1	−1	+5	+ 8	+16	+10	+11	−8	+14	+13
Scranton	−2	+5	−2	+15	.....	.....	.....	.....	+ 3	+ 5
Trenton	+1	+5	+1	+13	+10	+ 7	+10	−6	+ 7	− 4
Wilkes-Barre	−1	+5	+2	+19	+ 9	+ 7	+15	+5	+ 4	+ 2
York	+1	+2	+7	+11	+16	+15	+12	−1	+ 8	+15

*Not restricted to corporate limits of cities but covers areas of one or more counties.

MEASURES OF OUTPUT

	Per cent change — Oct. 1952 from month ago	Oct. 1952 from year ago	10 mos. 1952 from year ago
MANUFACTURING (Pa.)	+ 2	+ 2	− 6
Durable goods industries	+ 2	0	− 7
Nondurable goods industries	+ 1	+ 5	− 4
Foods	0	0	− 2
Tobacco	+ 2	+ 2	+ 2
Textiles	+ 1	+ 9	− 8
Apparel	− 1	+13	− 6
Lumber	+ 2	− 5	− 7
Furniture	+ 8	+22	+ 6
Paper	+ 6	+10	− 6
Printing and publishing	0	0	− 1
Chemicals	+ 2	+ 4	0
Petroleum and coal products	+ 2	+ 1	− 8
Rubber	+ 9	0	− 3
Leather	0	+12	− 4
Stone, clay and glass	+ 7	− 6	−13
Primary metal industries	− 1	− 7	−16
Fabricated metal products	+ 3	+ 7	− 8
Machinery (except electrical)	− 1	− 6	− 3
Electrical machinery	+ 2	+10	+ 5
Transportation equipment	+ 6	+14	+16
Instruments and related products	+ 3	0	− 3
Misc. manufacturing industries	+13	+10	−14
COAL MINING (3rd F. R. Dist.)*	+ 2	−13	− 7
Anthracite	+ 7	−10	− 4
Bituminous	−30	−37	−19
CRUDE OIL (3rd F. R. Dist.)**	+ 2	− 5	− 1
CONSTRUCTION—CONTRACT AWARDS (3rd F. R. Dist.)†	−14	+28	+ 4
Residential	0	+40	+ 8
Nonresidential	−26	+16	−15
Public works and utilities	−20	+24	+45

*U.S. Bureau of Mines.
**American Petroleum Inst. Bradford field.
†Source: F. W. Dodge Corporation. Changes computed from 3-month moving averages, centered on 3rd month.

EMPLOYMENT AND INCOME

Pennsylvania Manufacturing Industries* Indexes (1939 avg. = 100)	Employment — Oct. 1952 (Index)	Employment — Per cent change from mo. ago	Employment — year ago	Payrolls — Oct. 1952 (Index)	Payrolls — Per cent change from mo. ago	Payrolls — year ago	Average Weekly Earnings — Oct. 1952	Average Weekly Earnings — % chg. from year ago	Average Hourly Earnings — Oct. 1952	Average Hourly Earnings — % chg. from year ago
All manufacturing	139	+1	+ 1	427	+ 2	+ 8	$68.97	+ 8	$1.70	+ 6
Durable goods industries	169	+2	+ 1	496	+ 2	+ 7	75.56	+ 7	1.85	+ 7
Nondurable goods industries	109	0	+ 1	336	+ 1	+11	59.00	+10	1.47	+ 5
Foods	132	0	+ 1	339	− 1	+ 5	57.46	+ 4	1.39	+ 4
Tobacco	89	−1	0	269	+ 3	+ 6	39.78	+ 7	.99	+ 4
Textiles	70	0	+ 1	226	+ 1	+13	58.02	+12	1.44	+ 4
Apparel	130	−1	+ 2	403	0	+18	43.74	+16	1.17	+ 4
Lumber	148	+1	− 6	422	+ 3	0	49.81	+ 6	1.18	+ 5
Furniture and lumber products	133	+6	+14	454	+ 9	+30	63.04	+14	1.37	+ 7
Paper	144	+4	+ 4	473	+ 6	+17	70.88	+12	1.61	+ 6
Printing and publishing	120	+1	0	340	− 1	+ 8	79.86	+ 9	2.04	+ 8
Chemicals	146	0	− 1	444	+ 3	+ 7	72.12	+ 8	1.69	+ 5
Petroleum and coal products	156	0	− 1	477	+ 2	+11	91.88	+12	2.23	+11
Rubber	225	0	− 7	783	+ 8	+ 4	86.19	+12	1.96	+ 6
Leather	85	0	+ 6	242	0	+18	48.71	+12	1.25	+ 6
Stone, clay and glass	133	+3	− 7	402	+ 8	0	69.37	+ 7	1.74	+ 6
Primary metal industries	138	0	− 3	404	− 2	+ 2	81.57	+ 5	2.08	+ 9
Fabricated metal products	182	+2	+ 4	564	+ 4	+16	73.67	+11	1.75	+ 9
Machinery (except electrical)	232	+3	− 3	673	0	− 2	73.53	+ 2	1.78	+ 5
Electrical machinery	292	+2	+ 8	749	+ 3	+19	71.75	+10	1.74	+ 7
Transportation equipment	195	+4	+12	582	+ 9	+22	84.85	+ 9	2.05	+ 8
Instruments and related products	193	+2	+ 3	594	+ 4	+ 6	70.34	+ 3	1.71	+ 6
Misc. manufacturing industries	146	+9	+ 6	442	+14	+19	61.88	+13	1.41	+ 9

*Production workers only.

TRADE

Third F. R. District Indexes: 1947–49 Avg. = 100 Adjusted for seasonal variation	Oct. 1952 (Index)	Per cent change: Oct. 1952 from month ago	Per cent change: Oct. 1952 from year ago	Per cent change: 10 mos. 1952 from year ago
SALES				
Department stores	114	+ 9	+ 5	0
Women's apparel stores	82	+ 1	+ 1	− 2
Furniture stores	......	+18*	+20*	+16*
STOCKS				
Department stores	113p	+ 1	− 3	......
Women's apparel stores	106	+ 5	− 1	......
Furniture stores	......	+ 4*	− 3*	......

Recent Changes in Department Store Sales in Central Philadelphia	Per cent change from year ago
Week ended November 15	− 5
Week ended November 22	+ 3
Week ended November 29	−20
Week ended December 6	0

*Not adjusted for seasonal variation. p—preliminary

Departmental Sales and Stocks of Independent Department Stores Third F. R. District	Sales: % chg. Oct. 1952 from year ago	Sales: % chg. 10 mos. 1952 from year ago	Stocks (end of month): % chg. Oct. 1952 from year ago	Stocks: Ratio to sales (months' supply) October 1952	Stocks: Ratio to sales (months' supply) October 1951
Total—All departments	+ 1	−2	− 5	2.9	3.0
Main store total	0	−2	− 6	3.1	3.3
Piece goods and household textiles	−10	−9	− 8	3.5	3.4
Small wares	+ 5	+2	+ 2	4.0	4.1
Women's and misses' accessories	+ 5	0	0	3.1	3.2
Women's and misses' apparel	+ 7	+3	+ 3	1.9	2.0
Men's and boys' wear	+ 5	0	− 7	3.8	4.3
Housefurnishings	− 8	−8	−13	3.1	3.3
Other main store	− 2	−1	− 9	4.4	4.7
Basement store total	+ 1	−2	+ 3	1.9	1.9
Domestics and blankets	− 7	−2	+ 7	2.5	2.2
Small wares	− 6	−5	+ 5	2.5	2.2
Women's and misses' wear	+ 5	0	+13	1.5	1.4
Men's and boys' wear	+ 8	+1	− 4	2.1	2.4
Housefurnishings	−10	−8	− 1	2.1	1.9
Shoes	− 1	−3	−11	2.7	3.0
Nonmerchandise total	+12	+3	......	......	......

BANKING

MONEY SUPPLY AND RELATED ITEMS United States (*billions $*)	Oct. 29 1952	Changes in— five weeks	Changes in— year
Money supply, privately owned	190.2	+2.8	+8.6
Demand deposits, adjusted	98.6	+2.3	+3.7
Time deposits	64.9	+ .4	+4.0
Currency outside banks	26.7	+ .1	+ .9
Turnover of demand deposits	21.5*	+ .9*	+1.9*
Commercial bank earning assets	139.4	+2.4	+9.0
Loans	62.4	+1.2	+5.7
U.S. Government securities	62.8	+1.3	+2.0
Other securities	14.2	− .1	+1.3
Member bank reserves held	20.4	− .1	+ .9
Required reserves (estimated)	19.9	+ .1	+ .9
Excess reserves (estimated)	.5	− .2	0

Changes in reserves during 5 weeks ended October 29 reflected the following:

	Effect on reserves
Net payments to the Treasury	−.3
Increases of currency in circulation	−.3
Other transactions	−.2
Decrease in Reserve Bank holdings of Governments	−.1
Increase in Reserve Bank loans	+.8
Change in reserves	−.1

* Annual rate for the month and per cent changes from month and year ago at leading cities outside N. Y. City.

OTHER BANKING DATA	Nov. 26 1952	Changes in— four weeks	Changes in— year
Weekly reporting banks—leading cities United States (*billions $*):			
Loans—			
Commercial, industrial and agricultural	22.9	+ .6	+ 2.0
Security	2.4	+ .3	+ .6
Real estate	6.0	0	+ .3
To banks	.4	− .2	− .2
All other	6.9	+ .1	+ .9
Total loans—gross	38.6	+ .8	+ 3.6
Investments	40.4	+ .6	+ 1.6
Deposits	87.8	+1.6	+ 5.0
Third Federal Reserve District (*millions $*):			
Loans—			
Commercial, industrial and agricultural	892	+ 27	+ 88
Security	63	− 13	+ 17
Real estate	150	+ 3	+ 17
To banks	24	+ 6	+ 14
All other	452	+ 8	+ 63
Total loans—gross	1,581	+ 31	+199
Investments	1,481	+ 18	− 72
Deposits	3,374	+ 63	+147
Member bank reserves and related items United States (*billions $*):			
Member bank reserves held	20.9	+ .5	+ 1.3
Reserve Bank discounts and advances	1.6	+ .4	+ 1.1
Reserve Bank holdings of Governments	23.8	+ .1	+ .5
Gold stock	23.3	0	+ 1.0
Money in circulation	30.2	+ .6	+ 1.4
Treasury deposits at Reserve Banks	.3	− .2	− .2
Federal Reserve Bank of Phila. (*millions $*):			
Loans and securities	1,539	+ 16	+ 39
Federal Reserve notes	1,830	+ 57	+ 96
Member bank reserve deposits	935	+ 5	+ 31
Gold certificate reserves	1,296	+ 38	+ 92
Reserve ratio (%)	45.5%	+ .5%	+ 1.1%